



INTERNATIONAL AIR SERVICES LIBERALIZATION

**Remarks of
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**Airports Council International-North America
International Air Services Seminar**

**Washington, DC
December 2, 2004**

On behalf of President Bush and Secretary Mineta, let me welcome all of you to Washington. It is always a privilege to address this distinguished group of airport professionals on an issue that is of primary importance to the airport community – international aviation liberalization. ACI-North America has served as the “voice of airports” for nearly six decades, and during that time there have been a great many transformations in how airports and airlines do business and how they relate to the traveling public as well as federal, state and local governments. We are clearly in a period of great change for this storied industry right now, as well as a political transition from one Presidential term to the next. All that makes this a good time to take stock of where we are and where we would like to go.

Reducing Burdensome Regulations on Airports

International aviation liberalization has long been an important U.S. objective. In this Administration, however, it should be viewed as but one manifestation of a strong disposition towards letting free markets work, facilitating robust competition, and ensuring that passengers enjoy the full benefits of deregulation. Each of you is a close observer of the ways in which civil aviation is being reshaped today, and you need no lecture from me about the importance of that phenomenon. What I want you to know, however, is that we have no intention of getting in the way of that transformation. What we *will* do is look for every opportunity to reduce regulatory and tax burdens on the air services market while maintaining the strong track record of safety and security

improvements we have achieved during the last four years. Our recent decision to deregulate Computer Reservation Systems – largely in light of the extent to which airline ticket sales have moved to the internet -- is but one example of our determination to move beyond heavy-handed regulation when it has outlived its usefulness.

In that connection, I want to take a few minutes to highlight a couple of developments that are of particular importance to the airport community. In April of this year, I represented DOT at a House Aviation Subcommittee hearing led by Chairman John Mica that focused on the growing burdens airports face from federal regulatory requirements. Over the last several decades, Congress and the Executive Branch have worked to expand the Airport Improvement Program and make other changes that have led to tremendous growth in airport capacity throughout the U.S. In the process, however, we have also imposed numerous requirements on airports in exchange for increased federal funds or financing flexibility.

In an effort to address this challenge and make it easier for airports to do their job, the FAA, working in close collaboration with Secretary Mineta's staff, has taken important steps over the past few months to reduce burdensome or unnecessary regulations related to airport financing.

For example, we have reduced the burden of filing airport competition plans by exempting any airport that has completed its initial plan plus two updates from providing additional annual updates. The only time this exemption would not apply is in the case of an airport authority that has denied an air carrier access to gates or facilities over the previous six months or executed a new or significantly amended master lease and use agreement. We have also taken steps towards streamlining the passenger facility charge approval process with the intent of reducing the burden on airports seeking to raise revenues for airport development projects. We believe that these steps will begin to address the burdens that airports and their stakeholders face in terms of federal policies, and lay the groundwork for a broader review of these policies as we move towards reauthorization of our aviation programs in fiscal year 2007.

Modernizing our Air Transportation System

While we have made tremendous progress in recent years in adding capacity to our air transportation system, particularly through increased AIP funding, airspace redesigns, and steady modernization of our air traffic control system, we still face potential shortfalls as passengers continue to return to the system in large numbers. The reality is that by the year 2025 we expect approximately three times the present demand for air services in this country. This is only an estimate, of course, but even if demand only doubles in that timeframe we would still need major changes in the air transportation system in order to handle the larger number and more diverse aircraft operations that would accompany that increase.

To address that challenge, Secretary Mineta earlier this year announced an historic new initiative designed to transform our aviation system, substantially improving both its

efficiency and capacity. Our plan calls for a tripling of system capacity over the next two decades, accompanied by substantial improvements in airport security, situational awareness, and several other areas. As part of this “Next Generation Air Transportation System” initiative we have established a new Joint Planning and Development Office, or JPDO, within the FAA that is staffed by representatives of a number of participating agencies, including NASA and the Departments of Defense, Homeland Security, and Commerce. The program is being guided by a Senior Policy Committee chaired by Secretary Mineta, with high-level participation from each of the participating agencies.

That committee has met three times now and the JPDO is well on its way to developing the first edition of a National Plan that will lay out the long-term plan for ensuring that our air transportation system will be able to accommodate whatever increases in demand our growing and robust economy places on it. The National Plan will be delivered to Congress later this month.

I want to be clear, however, that transforming the air transportation system does not mean current projects and initiatives are being scrapped or even put on the back burner. We are taking a dual-track approach, working to address immediate operational and safety issues using existing programs while simultaneously working with industry to encourage the formulation of longer-term solutions. These recent efforts, led by Secretary Mineta, FAA Administrator Marion Blakey, and the team we have assembled through the JPDO, will go a long way towards addressing the short- and long-term challenges that airports face.

Liberalizing Global Aviation Markets

Let me now turn to my assigned topic -- the very important issue of international aviation liberalization. This Administration has accomplished a great deal in its first term, and we look forward to expanding those successes over the next four years.

To put it simply, we have continued the U.S. Government’s aggressive campaign to liberalize international aviation markets everywhere, pursuing the Open Skies model pioneered in the first Bush Administration back in 1992. In the last year alone we have signed four more Open Skies agreements. We have also achieved significant liberalization in our aviation relationship with China, expanding by five times the number of flights between our two countries. We have made significant strides toward a landmark agreement with the European Union. And we are actively pursuing more liberalized air services agreements with India, Canada, Hong Kong and Mexico.

I know I don’t have to sell anyone in this room on the benefits to airports and the communities they serve of more open markets for international air services. These agreements mean more service to more cities around the country, creating jobs, enhancing efficiency, and providing travelers with a wider variety of new travel options. And lest you think we are merely adding footnotes to an old story, consider that our two recent bilateral agreements with China and Indonesia alone extended more liberalized aviation regimes to another 1.6 billion people, more than five times the U.S. population.

The landmark aviation agreement with China is worth a closer look, particularly now that DOT's proceeding for allocating the new opportunities created by that agreement is much in the news. The agreement will phase in an additional 200 flights each week between the U.S. and China through 2010, bringing huge economic benefits to both countries. Indeed, we estimate that a single new daily 777 roundtrip between the U.S. and China will produce a total annual benefit of about \$158 million to the U.S. economy. More specifically, the agreement will allow 84 new passenger flights, 111 new all-cargo flights, and the entry of five more airlines for each side over the next six years. It's not surprising that there has been so much interest in the press in DOT's process for allocating the opportunities created by the new agreement. The proceeding has generated huge interest from carriers and communities all across the country.

The fact that we are conducting that proceeding – a very expensive and time-consuming affair for the parties and DOT alike – reflects an anomaly that shouldn't be overlooked in our celebration of the dramatic expansion of services facilitated by the U.S.-China agreement. It is that the agreement, for all of its benefits, still compels us to treat the opportunity to conduct commercial flights between the U.S. and China as a scarce resource, to be doled out through a regulatory process that will necessarily reward the few and disappoint the many. What is it about the economic relationship between the U.S. and China – now our largest trading partner across the Pacific -- that requires us to calibrate through a government-to-government agreement the number of flights between our two vast territories? Why do we continue to restrict the number of airlines allowed to operate those flights? Yes, the agreement was a huge step forward, and a tremendous achievement by John Byerly and his team of State Department and DOT negotiators. But it still requires that we go through a tedious, anachronistic carrier selection process that I had hoped we would have dispensed with by now, and so it still leaves a lot to be desired. We need a more thoroughgoing liberalization of the U.S.-China aviation relationship – one more in keeping with the maturity of the larger economic and trade relationship between our two countries – and I hope that China will soon find its own reasons to embrace that aspiration.

Thanks in large measure to the major expansion of air services facilitated by the new U.S.-China agreement, we are seeing new levels of interest in liberalization among some of our other trading partners in Asia. For example, Hong Kong has agreed to meet and reevaluate our current air transport agreement, which was last revised only two years ago. We tentatively expect to hold consultations in Washington in the early spring. Another area where the China agreement has sparked some interest is in India, which represents another very large and growing market with strong potential for expanded air services. Last week we met with Indian officials to begin discussing the possibility of reaching an open skies agreement. While some hard work remains to reach an accord on elements central to an agreement, we are optimistic about our chances of success in the near future.

As I mentioned earlier, we are also actively pursuing more liberalized aviation agreements with some of our largest trading partners right here in our own hemisphere. We have engaged our Mexican colleagues in a number of informal, high-level conversations, and one week from today we will host another round of talks in

Washington. Mexico is a very large aviation market, but our bilateral agreement still contains restrictions on airline entry, designation and code-sharing. We are hopeful that we can conclude those talks at some point soon and announce an agreement that is more in line with the close relationship we have with Mexico.

We have also been in contact with our Canadian neighbors. The Canadians, while open to taking a fresh look at our 1995 aviation agreement, are still transitioning to the new government of Prime Minister Martin. Transport Minister Lapierre has recently authorized a commission to study the benefits and ramifications of international aviation liberalization. The U.S. looks forward to the opportunity to engage with Canada in an effort to expand our existing agreement once that process is completed.

Let me conclude with a few words about our aviation relations with Europe. We were all obviously disappointed at the European Council of Ministers' rejection last June of the first phase of what would certainly have become a comprehensive new air services agreement across the Atlantic. I've been in this business a long time, and it was genuinely exciting to contemplate the possibility of finally achieving an agreement that had the potential to reshape the framework for international aviation.

Let me be clear about this. The agreement that was rejected – while only a first step -- would have taken aviation relations between the U.S. and EU to an entirely new level. Among a number of important innovations in that accord was an agreement by the United States to treat EU airlines not as national carriers allowed to fly to the U.S. only from their individual home countries, but rather as “EU carriers” eligible to originate flights anywhere in EU territory to any point in the U.S. and beyond. That single change could have opened the door to major changes in the airline industry in Europe, with potential dividends for U.S. carriers and their alliance partners.

This shift to an EU carrier model is a badly overdue first step, and the U.S. announced its commitment to take that step at the very outset of the negotiations. I am surprised that our European friends did not attach more value to that commitment, and as a result both sides missed an exceptional opportunity to transform the transatlantic aviation market.

Another innovation would have been a relaxation of our long-standing statutory restrictions on foreign investment in U.S. airlines – a measure already favored by the Bush Administration. The truth is that we should be questioning these restrictions for our own purposes – not merely because they represent an obstacle to concluding an important new agreement with the EU. At this particular moment in the financial history of the U.S. airline industry, we need to consider seriously whether there is any continuing rationale for restricting our airlines' access to the global capital marketplace.

Rather than dwelling on our disappointment with the failure of the last effort to conclude a U.S.-EU agreement, however, we are preparing to re-engage with our colleagues in Europe. We are carefully reviewing U.S. positions and engaging in a comprehensive consultation process with all sectors of the U.S. international community. Of course, we also remain in contact with the Commission, but expectations need to be realistic. We

continue to view the package concluded in June as a significant first step towards a fundamental change in international aviation, and one worthy of more favorable consideration by the EU.

Now that the Open Skies model extends to so many of our international markets, an agreement among the two largest aviation markets in the world is clearly overdue. Only by moving towards a more liberalized global market will the aviation industry ever be able to realize the kind of global network efficiencies that have been such a powerful force for change in other major service industries like telecommunications or financial services.

Conclusion

As you can tell, this is a very busy time for us at DOT. International aviation liberalization remains a paramount objective. We look forward to working with all of you in the days ahead.

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